

**PRESENTATION
OF
THE ASSOCIATION OF BUSINESSES
ADVOCATING TARIFF EQUITY
TO
HOUSE ENERGY COMMITTEE**

MARCH 25, 2015

Presented by:
Robert A. W. Strong
General Counsel to ABATE

Clark Hill PLC
151 S. Old Woodward Avenue, Suite 200
Birmingham, MI 48009
(248) 988-5861
rstrong@clarkhill.com



ASSOCIATION OF BUSINESSES ADVOCATING TARIFF EQUITY

TOPICS:

- 1. History of Choice in Michigan**
- 2. Competitive vs. Uncompetitive rates**
- 3. Choice's Impact on Capacity and Reliability**
- 4. Choice Does Not Harm Full Service/Bundled Customers**

1. History of Choice in Michigan

- Customer Choice and Reliability Act signed into law on June 3, 2000 (Act 141)
- Act 141 was tie-barred to Act 142, which allowed utilities the ability to issue securitization bonds to recover the above-market cost of their generating plants or “stranded costs.”

History of Choice in Michigan(Cont'd.)

- Act 141 provided:
 - All customers had the ability to purchase their electricity requirements from a licensed Alternative Electric Supplier (AES)
 - Required the Michigan Public Service Commission ("MPSC") to enter the orders necessary to implement Choice in Michigan

History of Choice in Michigan(Cont'd.)

- Elements of typical Choice transaction:
 - Bilateral contract between a customer and an AES
 - Electric power scheduled and delivered to the electric utility by the AES
 - Electric utility delivers the power to the customer and the customer pays the distribution charges plus other surcharges.
- Choice available for customers beginning January 1, 2002
- By the end of 2004, approximately 15% of load participated in the Choice programs for both Consumers Energy Company and DTE Electric Company

History of Choice in Michigan(Cont'd.)

- Customers on Choice included schools, small businesses and industrials. Residential customers did not participate due to the fact that Act 141 mandated a 5% residential rate reduction.
- On October 6, 2008, PA 286 was signed into law which placed a cap on the amount of electricity that could be supplied to utility customers by AESs.
- Act 286 re-monopolized 90% of the market.
- Act 286 capped the amount of Choice participation at 10% of an electric utility's average weather-adjusted retail sales for the preceding calendar year.

History of Choice in Michigan(Cont'd.)

Consumers Energy			
	2012	2013	2014
Weather-Adjusted Retail Sales	37,398,498 MWh	37,298,206 MWh	36,331,256 MWh
Participation Level	3,913,906 MWh	4,011,850 MWh	3,948,370 MWh
Participation Percent	10.47%	10.77%	10.87%
Customers in Service	1,064	1,065	1,050
Customers in Queue	5,867	6,074	5,792
Total Load in Queue	5,048,847 MWh	5,338,503 MWh	6,188,136 MWh
<i>Participation Percent w/o Cap</i>	<i>23.97%</i>	<i>25.07%</i>	<i>27.90%</i>

Source: MPSC "Status of Electric Competition in Michigan"
dated January 29, 2015

History of Choice in Michigan(Cont'd.)

DTE Electric Company			
	2012	2013	2014
Weather-Adjusted Retail Sales	47,093,408 MWh	46,830,494 MWh	47,714,848 MWh
Participation Level	5,316,260 MWh	5,163,132 MWh	5,154,814 MWh
Participation Percent	11.29%	11.03%	10.80%
Customers in Service	5,672	5,491	5,285
Customers in Queue	4,600	5,295	5,262
Total Load in Queue	4,382,423 MWh	5,181,881 MWh	5,379,877 MWh
<i>Participation Percent w/o Cap</i>	<i>20.59%</i>	<i>22.09%</i>	<i>22.08%</i>

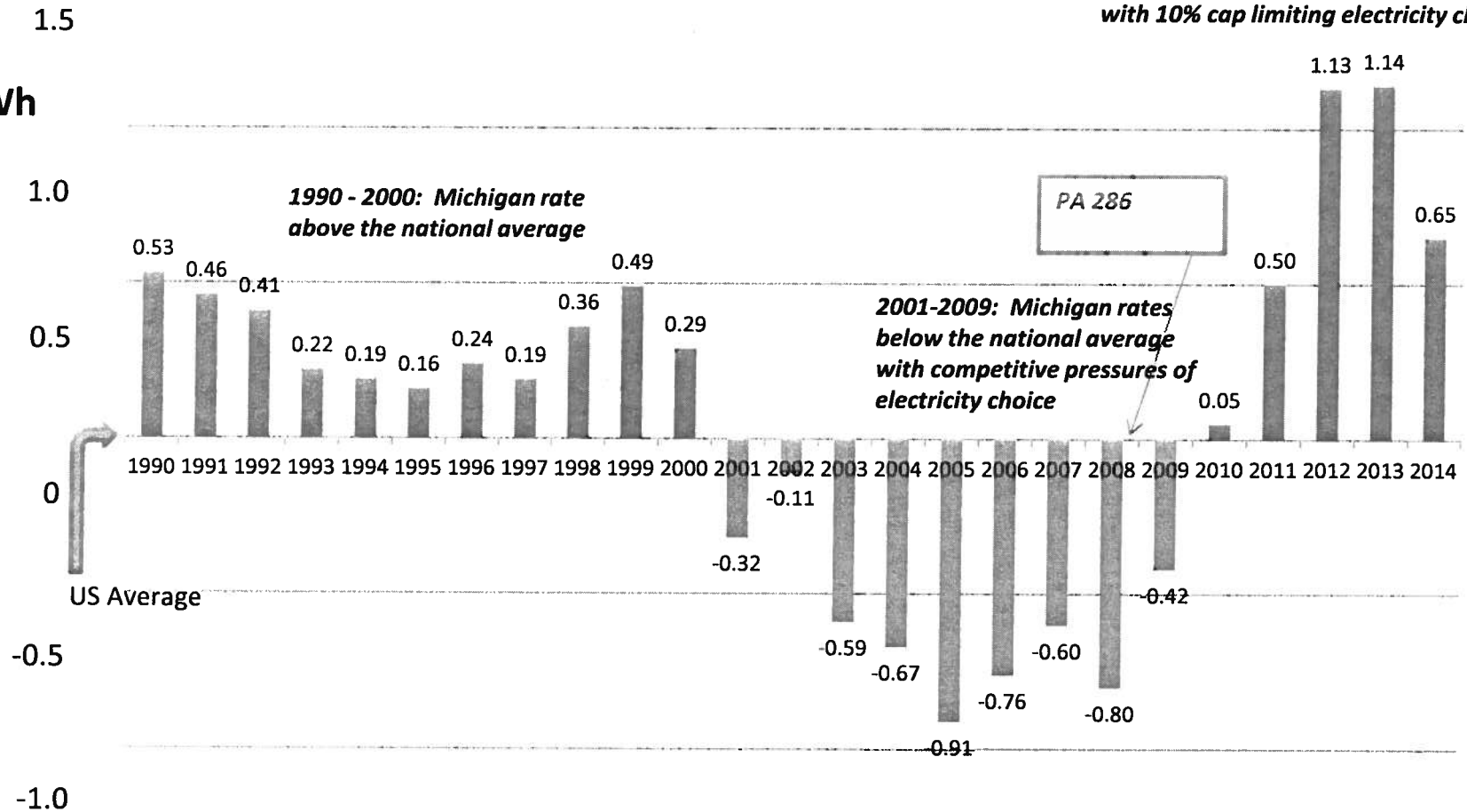
Source: MPSC "Status of Electric Competition in Michigan"
dated January 29, 2015

What Has the 2008 Energy Legislation Done?

Michigan vs US National Average

2010 - 2014: Michigan rates again above the national average with 10% cap limiting electricity cho.

¢/kWh



-1.5

Source: U.S. Energy Information Administration

History of Choice in Michigan(Cont'd.)

- Securitization Bonds:
 - DTE Electric issued \$1.8 billion in bonds with ratepayer-guaranteed repayment plus interest.
 - Consumers Energy issued \$476 million in securitization bonds with guaranteed repayment by ratepayers plus interest.
- All ratepayers paid a surcharge on their bills for 14 years.
- DTE Electric's bonds were fully repaid in January 2015.
- Consumers bonds will be repaid by October 2015.
- Securitization was part of a deal where all ratepayers were given an opportunity to choose an AES.

History of Choice in Michigan(Cont'd.)

PA 141 and 142 of 2000

“While we are just launching restructuring in Michigan, I don’t anticipate California-like problems here. The drafters of our legislation paid attention to the early warning signs in California and established safeguards that will provide for an orderly transition to competition.”

Anthony Earley Jr.
Chairman of Board and CEO, DTE
DTE Annual Report, Jan. 31, 2001

2. Competitive vs Uncompetitive Rates Potential Choice Savings for Michigan

- Market rate is now \$25/MWh less than utility supply.
- 9.1 million MWh served competitively = 11%.
- 9.1 million MWh x \$25 = \$227.5 million in annual savings.
- 11.6 million MWh in the unserved queue = 14%.
- 11.6 million MWh x \$25 = \$290 million in potential savings.

Sources:

- ABATE member average per MWh savings in 2014
 - MPSC "Status of Electric Competition in Michigan," dated January 29, 2015
- Each \$1.00/MWh in savings reduces rates by \$70 million in Consumers' and DTE's service territories.

ABATE Member Experience

- 2014 Choice savings in Michigan: \$34 million (25% savings)
- 2014 Choice savings in other states compared to average Michigan utility rates: \$65 million

Lifting the Cap on Choice Could Avoid a New Plant

- **Consumers Energy** has:
 - 771 MW of Choice in service
 - 2075 MW of Choice enrolled (in queue)
- Lifting the cap would be a no-cost option to replace the need for a \$750 million 700 MW utility-owned generating plant.

Source: MPSC "Status of Electric Competition in Michigan" dated January 29, 2015

Lifting the Cap on Choice Could Avoid a New Plant

- **DTE Electric** has:
 - 1,168 MW of Choice in service
 - 1,182 MW of Choice enrolled (in queue)
- Lifting the cap would be a no-cost option to replace the need for a utility-owned generating plant.

Source: MPSC "Status of Electric Competition in Michigan" dated January 29, 2015

3. Choice's Impact on Capacity and Reliability

- The Midcontinent Independent System Operator (MISO) aggregates and dispatches virtually all generation in its footprint, which consists of 15 states and one Canadian province.
- Each load-serving entity (regulated utilities, AESs) is equally reliable on a generation basis.
- If customers switch generation sources, MISO will continue to aggregate and dispatch the available capacity.
- The only change is the financial responsibility for the particular load.

Choice's Impact on Capacity and Reliability (Cont'd.)

- MISO has adopted a number of mechanisms to ensure reliability, which apply equally to regulated utilities and AESs.
- These mechanisms include: Zonal Resource Credits, Fixed Resource Adequacy Plan, participation in the annual Planning Reserve Auction, or paying a penalty based upon the cost of a new peaking generator.

Choice's Impact on Capacity and Reliability (Cont'd.)

<u>Categories Affecting Reliability</u>	<u>Full Service</u>	<u>Electric Choice</u>	<u>Difference?</u>
• Generation Capacity & Reserves	• Provided by local utility to meet MISO requirements	• Provided by AES to meet MISO requirements	• Identical quantity
• Dispatch of Regional Generation	• Controlled by MISO. All gen serves all load.	• Controlled by MISO. All gen serves all load.	• Identical dispatch
• Transmission Service	• Provided by MISO	• Provided by MISO	• Identical service
• Local Delivery Service	• Provided by local utility without discrimination.	• Provided by local utility without discrimination.	• Identical service

4. Choice Does Not Harm Full Service/Bundled Customers

- Utilities do not acquire reserves to serve Choice customers.
- Utilities do not operate their more expensive plants because Choice customers have reduced load on their system.
- Utilities currently do not have enough capacity to meet the operational and reserve requirements of their existing customers and have to buy capacity in the market.
- Bundled customers **benefit** from the absence of Choice customers through reduced fuel and capacity costs.
- Return to service restrictions have been adopted to protect bundled customers.

ABATE Members:

- Employ more than 137,000 men and women.
- Michigan payroll exceeds \$3.4 billion.
- Have facilities in 32 counties in both the Upper and Lower Peninsulas of Michigan.